



FEATURE

UK hotels face a **branded** future

Compared with 1990, today's hotel industry is unrecognisable; further change is inevitable with stronger brands, more fragmented ownership and fewer independent operators. By 2030 six out of every ten hotels will be corporate branded.

By Melvin Gold FIH

I graduated from hotel school in 1981 – during the course we had learned about billing machines, Whitney racks and a host of other operational equipment that has long since passed into extinction. But it is not just operational equipment, techniques and styles that are much changed, Lord Forte and Sir Maxwell Joseph led the foremost companies in the sector, Trusthouse Forte (as it then was) and Grand Metropolitan.

Although these companies seemed like giants at the time they are dwarfed by the scale of today's hotel companies. Although sourcing data from 1981 has not been possible, in Table 47 on the next page are listed the top 10 companies in the hotel sector in 1990, 2000 and 2013.

Three companies in the 2013 listing have more rooms than Forte in 1990 and only three that were listed in the 1990 listing would have made the top ten today. The top ten companies today comprise 233,316 rooms compared to 128,899 in 2000 and just 81,400 in 1990.



Table 47: Top 10 hotel companies in the United Kingdom in 1990, 2000 and 2013

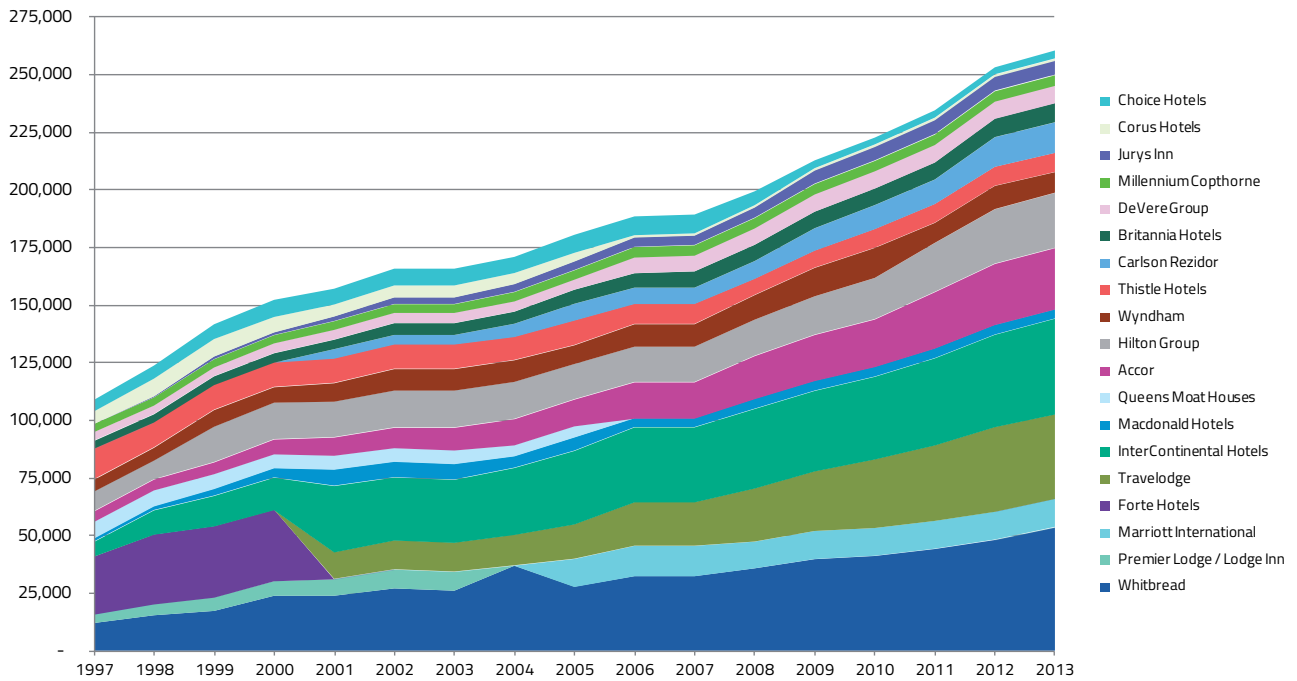
1990		2000		2013	
Company	Rooms	Company	Rooms	Company	Rooms
Forte	29,350	Forte (Granada/ Compass)	30,754	Whitbread	53,811
Mount Charlotte	13,700	Whitbread Hotel Company	24,022	InterContinental Hotels Group	41,585
Queens Moat Houses	10,500	Hilton Group	15,869	Travelodge	36,790
Ladbroke	7,250	Bass Hotels & Resorts	14,074	Accor	26,619
Bass Hotels & Resorts	4,500	Thistle Hotels	10,718	Hilton Group	23,751
Vaux (Swallow)	3,800	Choice Hotels (Friendly Hotels)	7,428	Carlson Rezidor	13,219
Stakis	3,400	Corus (Regal Hotels)	6,764	Marriott International	12,106
Jarvis Hotels	3,100	Jarvis Hotels (Ramada)	6,635	Wyndham	8,863
Rank Organisation	3,000	Scottish & Newcastle (Premier Lodge)	6,427	Britannia Hotels	8,293
Greenalls (De Vere)	2,800	Queens Moat Houses	6,208	Thistle Hotels (now glh Hotels)	8,279
	81,400		128,899		233,316

Sources: Melvin Gold Consulting research; BHA Trends and Developments; Institute of Hospitality (formerly HCIMA) Yearbook

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Figure 2: Growth of selected hotel companies in the UK, 1997-2013



Source: Melvin Gold Consulting database and analysis of BHA Trends and Developments and Institute of Hospitality Yearbook

CONSOLIDATION, BRANDING AND GROWTH

The kaleidoscopic chart above actually depicts the growth and mergers of 19 hotel companies during the period from 1997 to the end of 2013. Not all of the companies existed at the start of the period and they certainly don't all exist today but we see that they have grown from 109,064 rooms in 1997 to 260,126 in 2013.

'The 16 companies that remain are in control of almost 36 per cent of the rooms in the market.'

In a wider context, in a market comprising around 730,000 rooms, the 16 of these companies that remain are in control of almost 36 per cent of the rooms in the market. This is nothing like the brand concentration that we see in supermarkets, cinemas and petrol stations, but it is, nonetheless, far less fragmented than the hotel industry of yesteryear.

Figure 2 depicts some of the key changes in the market, perhaps most significantly the

break-up of the mighty Forte hotel empire in the years following the hostile Granada takeover in 2006. By 2001 the large purple block on the chart had been split into various portions, most significantly Posthouse (now largely rebranded as Holiday Inn) and Travelodge becoming an independent brand. Whitbread, originally the master-franchisee of Marriott in the UK exited that brand and concentrated on the development of their budget hotel division.

Underpinning the change has also been the growth and changing structure of franchising in the UK and the move towards an asset-light structure in most of the larger hotel companies. They have concentrated on their brand strength rather than exercising their property assets and stretching their balance sheets, as has historically been the case.

BRANDED BUDGET COMPANIES

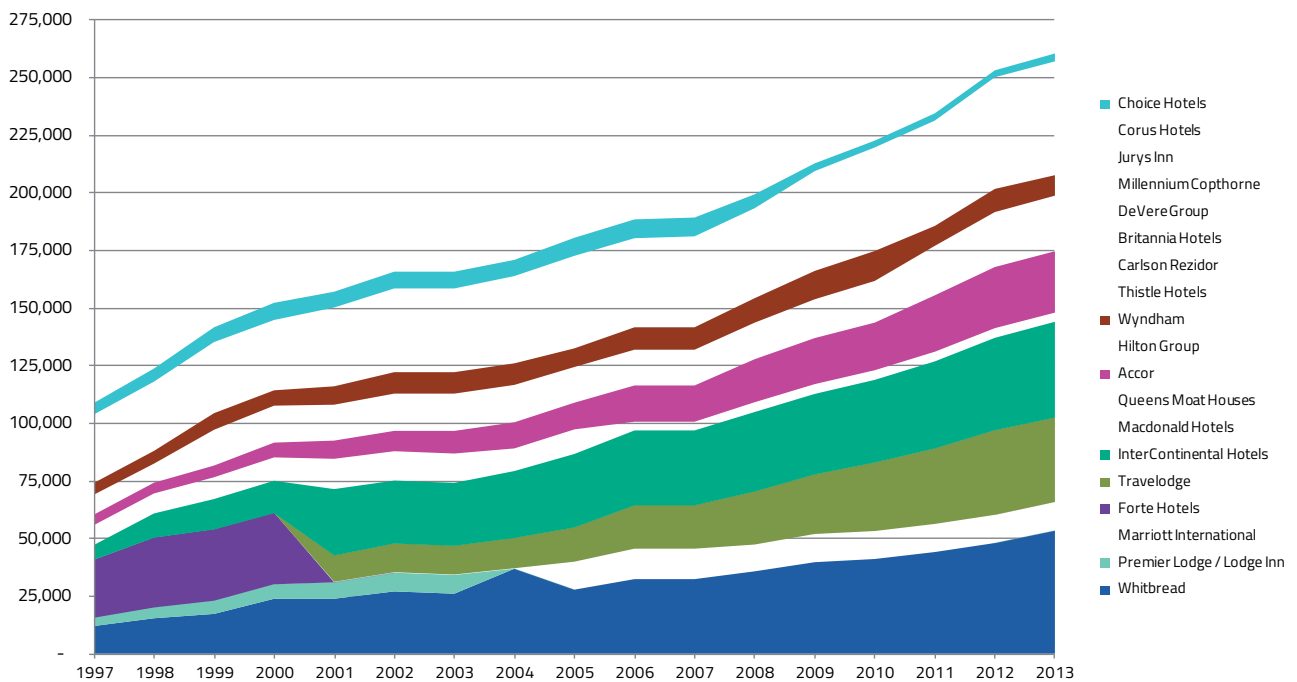
If we explode the chart (Figure 3) we can see some of the most significant constituent parts, especially those companies that have a foothold in the branded budget hotel market. This has

been the engine room of hotel development in the UK across the period. The first Travelodge launched in Burton-on-Trent in 1985; now there are 131,389 branded budget rooms in

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Figure 3: The branded budget market...



Source: Melvin Gold Consulting database and analysis of BHA Trends and Developments and Institute of Hospitality Yearbook

'Premier Inn (in its former guise) and Travelodge had first-mover advantage with their existing land-banks and they retain pole position today.'

a multitude of brands across the whole of the country.

Premier Inn (in its former guise) and Travelodge had first-mover advantage with their existing land-banks and they retain pole position today. InterContinental Hotels, the world's largest hotel company, and Accor, Europe's largest, also have significant shares of the branded budget market through Holiday Inn Express, Ibis (and

Ibis Budget and Ibis Styles) and Formule 1. The four companies now have around 89 per cent of the branded budget market. This makes market penetration difficult for the other companies that are seeking to gain traction. The chart demonstrates the growth of these companies compared to the more leisurely (or declining) pace of other multi-national franchising organisations such as Wyndham and Choice Hotels.

INTERNATIONAL BRANDS

There is also stark contrast in the fortunes of the big multi-national brands compared to the domestic companies. Figure 4 depicts the growth of InterContinental, Accor, Hilton and Carlson; Marriott, Wyndham and Choice must be disappointed with their progress – in the case of Choice they have declined in presence after the former master-franchisee hit financial problems and disbanded.

The companies that have grown have shown a mixture of flexibility and aggression in their market strategies and all of them have been prepared to adopt a mix of management contracts and franchising. Accor and Carlson (via

Rezidor and Park Plaza) have also accepted some leases within their portfolios.

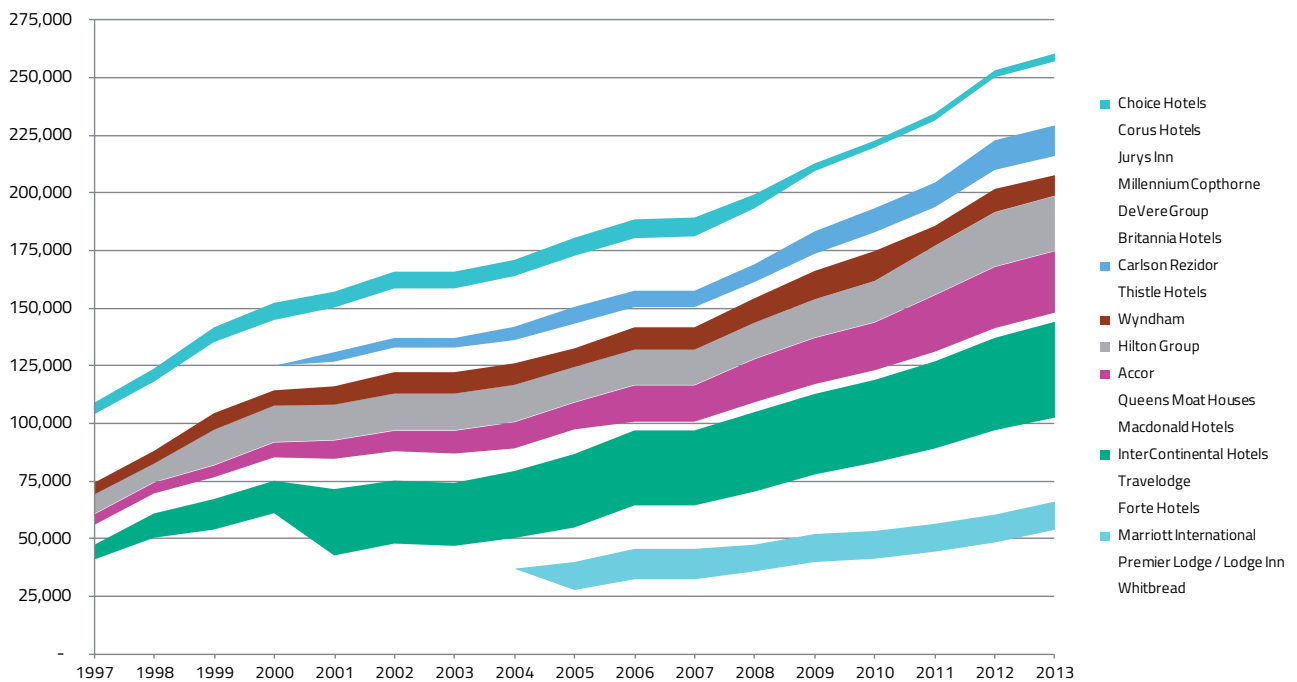
Another feature of all four has been the adoption of multiple brands in the UK. This was not possible for Hilton prior to the merger of the two Hilton entities but brands such as Doubletree, Garden Inn and Hampton have been recent additions to the UK hotel scene and Hilton's presence has grown. In fact none of these seven international companies are only operating one brand in the UK.

Perhaps the strongest brand story is that of Mercure, a mid-market non-standard brand

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Figure 4: ...and the international brands



Source: Melvin Gold Consulting database and analysis of BHA Trends and Developments and Institute of Hospitality Yearbook

'The stark contrast between the growth of the multi-national, multi-branded companies and the relatively stagnant, asset-heavy domestic companies is clearly evident.'

from Accor's stable. It was almost absent from the UK a decade ago but now has 74 hotels with over 7,500 rooms having taken on portfolios that have been bought by financial buyers such as Moorfield and Patron Capital from UK companies Macdonald Hotels and Ramada Jarvis.

This consolidation and branding has been hugely successful in building a portfolio that would almost make it into the UK top 10 hotel companies in its own right, let alone as part of Europe's largest hotelier.

DOMESTIC BRANDS AND COMPANIES

Whereas the international companies, in general, depict a picture of brand growth and consolidation through contracting and by using the leverage of financial buyers, the UK domestic companies have suffered stagnation or decline in general. The exploded chart of domestic companies (Figure 5) depicts little excitement or growth in numbers.

Queens Moat Houses has disappeared completely after suffering sustained financial weakness; its hotels having been rebranded within other portfolios such as Holiday Inn (InterContinental), Park Inn (Carlson) and Best Western. Eleven of QMH's remaining hotels were recently placed on the market. DeVere will also look rather different by the end of 2014 since DeVere Venues division was sold to Starwood

Capital at the time of going to press; a brand change might follow.

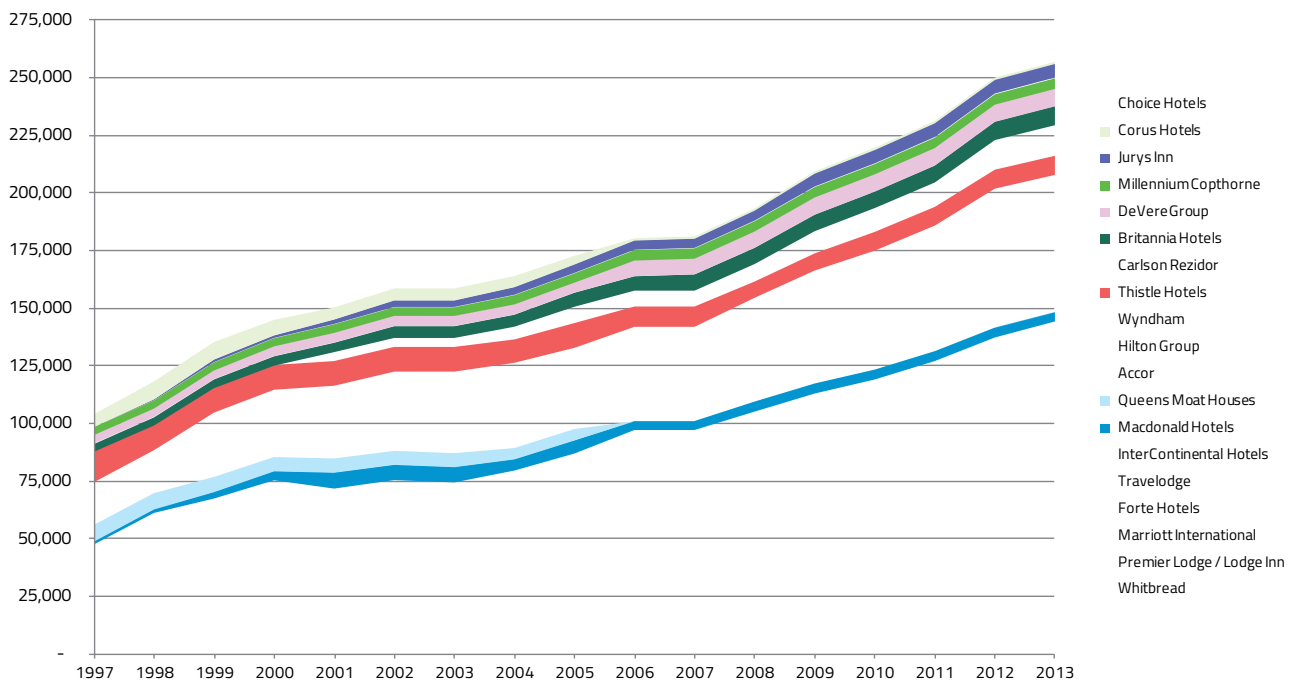
The stark contrast between the growth of the multi-national multi-branded companies and the relatively stagnant, asset-heavy domestic companies (some of which have overseas ownership) is clearly evident and it seems certain that more domestic supply will migrate to the brands, either through owners making that decision or through changes of owner.

It is interesting, for example, that three Jurys Inn properties in London will be rebranding under Hilton-brand franchise agreements during 2014 – two as Doubletree and one as Garden Inn. gIh hotels (formerly Guoman/Thistle) are adopting a different strategy though, instead they are

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Figure 5: Largely domestic non-budget companies



Source: Melvin Gold Consulting database and analysis of BHA Trends and Developments and Institute of Hospitality Yearbook

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rebranding some of their owned properties to some new brands, and some traditional – Amba and Clermont are new and Thistle

and The Cumberland are older – and offering management contracts to other owners under these brands, both within the UK and overseas.

CONCLUSION

The industry is not yet at the end of this process. I expect over 60 per cent of the UK hotel industry will be corporate branded by 2030 and a further portion will be branded in consortia – at present it is still well below 50 per cent. The independent hotel and bed and breakfast will live on but it will face more challenging competition from the marketing and sales muscle of the branded properties.

My bet would be more brands but within fewer brand owning companies which are typically multi-branded focusing on various tiers and segments of the market. Hotel ownership will be even more fragmented than it is today, and smaller owner-operators of reasonable sized properties will prefer to be franchisees (or in consortia) than unbranded independents.

But even within the branded part of the market there is change and consolidation ongoing. The industry is almost unrecognisable from that which existed just over two decades ago, and it will be further changed in two decades time. How?



Melvin Gold FIIH is a leading independent hotel industry consultant. More details of his services, and his contact details, can be found at:

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